

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMVOTI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Umvoti Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Umvoti Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Material losses

8. As disclosed in note 37 to the financial statements, material losses to the amount of R6,12 million (8,25 million kwh) were incurred due to electricity distribution.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

10. The supplementary information set out on pages ... to ... do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
13. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

14. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

15. Measures to improve performance for a total of 38% of the planned targets not achieved were not reflected in the annual performance report as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2002) (MSA). This was due to policies and procedures not being effectively communicated to staff.

Consistency

Reported indicators/ targets not consistent with planned indicators/ targets

16. A total of 65% of the reported indicators and 95% of the reported targets are not consistent with the indicators/ targets as per the approved service delivery agreement as required by section 41(1)(c) of the MSA. This was due to lack of adequate review of the annual performance report.

Additional matters

17. I draw attention to the matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

18. Of the total number of 85 targets planned for the year under review, 46 targets were not achieved. This represents 53% of total planned targets that were not achieved for the year. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Material adjustments to the annual performance report

19. Material audit adjustments in the annual performance report were identified during the audit, of which all were corrected by management.

Compliance with laws and regulations

20. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

Internal control

21. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matter reported below under the fundamentals of internal control is limited to the significant deficiencies that resulted in the findings on the annual performance report included in this report.

Performance management

22. Performance management processes were not reviewed and monitored to ensure consistency of information, disclosure of measures taken to improve performance and the accuracy and completeness of reported information.

Auditor General

Pietermaritzburg

29 November 2013



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